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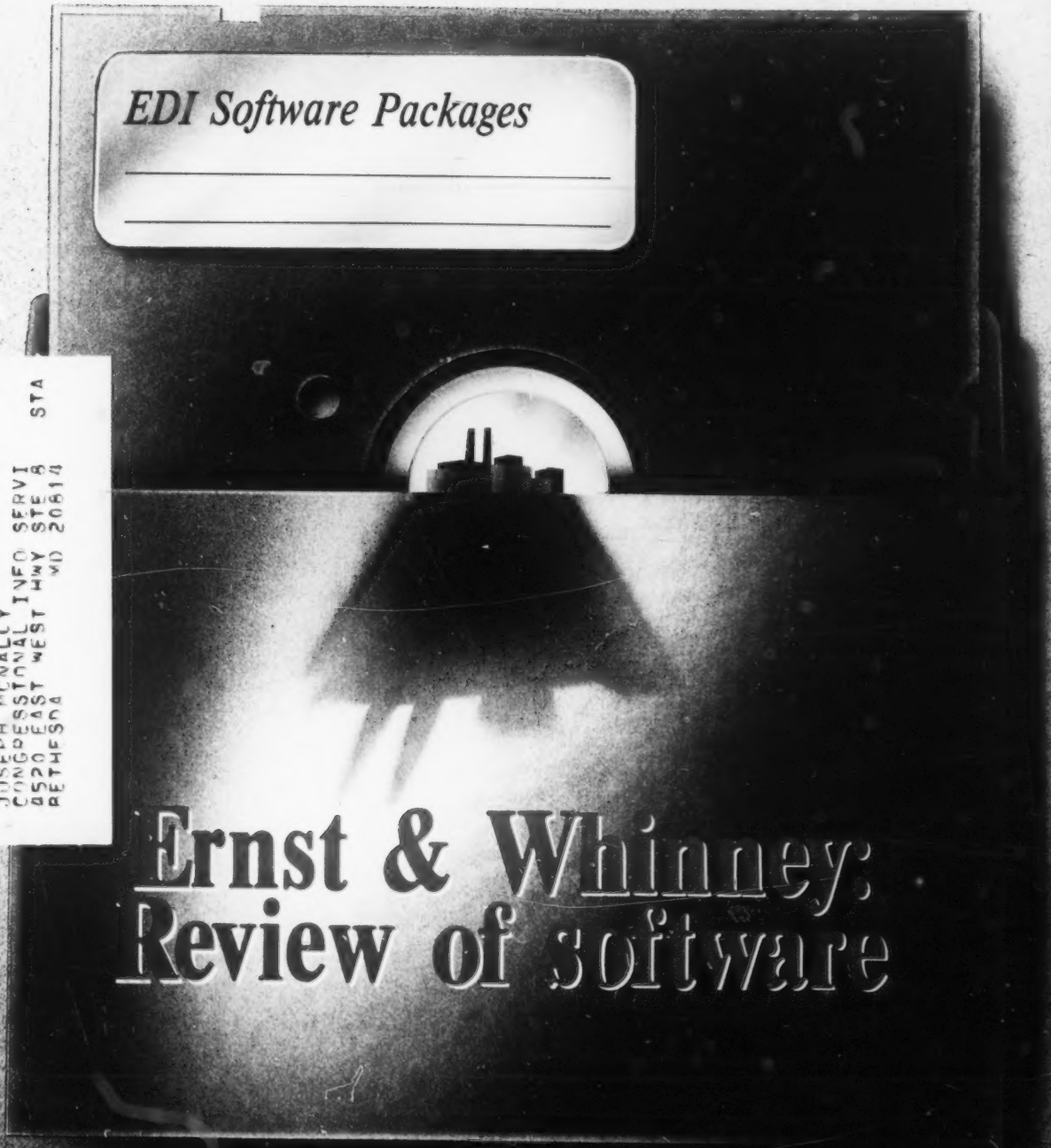

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Ernst & Whinney: Review of software

Electronics Market: Vendors Call Signals • Murray on Auction Law

E&W Software Review • Electronics Market • Laws Auctions

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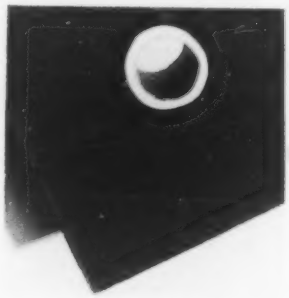

Purchasing software packages aren't all they could be, according to Ernst & Whinney experts
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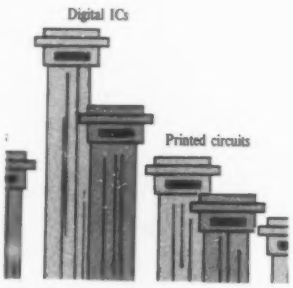

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56 **Better control keeps inventories lean**
In his survey of the month, Executive Editor Robert Reichard takes a look at the inventory restraint which guides purchasers today.

Want connectors in a hurry? Is 24-hour service fast enough?

A new quick-service program will assure AMP customers 24-hour shipping on a wide array of popular connector and packaging component products. "AMP is dedicated to being the most responsive connector supplier," says Richard Prescott, manager of product information services, "and this is one more way we are demonstrating our responsiveness."

The quick-service program complements the firm's established product information center, and will allow customers to order via a toll-free number. AMP products will continue to be offered by a network of over 300 distributors, plus cable assembly cooperatives. **Circle 271**

Wacky, but real, reasons why people want raises

Unconventional reasons some employees give when they ask for raises or promotions can be frivolous, odd, comical, illogical, ridiculous or just strange. "It's getting very expensive to feed all of my birds," is one wacky reason someone used in asking for a raise according to a survey of executives from leading firms conducted by Robert Half International.

Other uncommon reasons mentioned by survey respondents are:
—The area's economy is improving, so why shouldn't mine?
—If I get a promotion, I'll finally be able to impress my father-in-law.
—I want to pay for karate lessons.
—Anyone who can last three years in this company should automatically be made a vice president.
—It would be a very nice birthday present.
—I could use the money to buy a motorcycle for my boyfriend.
—I deserve a raise because I spend more time getting my work done than anyone else in my department.
—I have to support three wives, one of whom I'm still happily married to.
—I need another raise to pay for the new car I bought to celebrate my promotion last month.
—My therapist says I deserve a promotion.

Looking for trade names? Directory has 206,000!

Can you match the following trade names with the products they describe?

1. Plum Loco	A. Seltzer water
2. Goldrush	B. Toy robot
3. Techforce	C. Rubber ball
4. Dust Brain	D. Ice cream
5. Rocky Mountain	E. Preserves

Your job in matching up the right combinations would be a snap if you had Gale Research's sixth edition of the *Trade Names Dictionary* which lists over 206,000 trade names from 44,000 companies. It includes trade-named products that you see everyday, plus some less conventional items such as: orally inflatable splints, pet contraceptives and cologne, graffiti remover, and canned wine.

The two-set dictionary sells for $300. With a companion company index the price is $310. And, a *New Trade Names* single volume is $230. The answers to the quiz are: 1-E; 2-D; 3-B; 4-C; and, 5-A. **Circle 99**

Hand-held circuit analyzer detects voltage drops

Capable of detecting voltage drop beyond the limits established by the National Electric Code is American Electric's SureTest™ multi-function circuit analyzer. New to the Holub line of testers, SureTest enables the user to determine quickly and reliably the load capacity of a circuit by indicating voltage drop of more than 5%, or excessive line resistance. The instrument will signal the proper wiring and grounding of receptacles, and the proper function of ground-fault interrupters. **Circle 272**

Pooled purchases pare telecommunications costs

If your company is located in the midwest and you would like to save money—possibly a lot of money—on long-distance telephone charges and telecommunications equipment, you may be in luck. The Midwest Communications Exchange, Cleveland, is a limited partnership that pools purchases of long-distance services and communications equipment so that small to medium-sized companies can get the same volume discounts that only large companies qualified for in the past.

MCX signed a three-year agreement with MCI and Litel for long distance service and is currently ne-

PurchasingWorld

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Robert S. Reichard, executive editor

No inflation acceleration

It's still hard to make a case for any significant acceleration in the overall inflation rate.

That's not to say that there aren't upward factors to worry about. Certainly 1) continuing demand gains, 2) recent advances in factory operating rates, 3) high import tags engendered by the soft dollar, and 4) the current drought will all bear close watching.

But none of the above looks strong enough to upset the applecart. Near-term demand gains, for example, are likely to be quite moderate. Most economists are talking in terms of a 2.5-3% annual rate of advance in real GNP for the second half—about one percentage point under the first half.

On the capacity situation: Operating rates in some basic raw materials are high—as a result, prices of these products have jumped significantly.

But that doesn't tell the whole story. The all-industry factory operating rate is still well below that of the late 1970s when a lack of production capacity sent prices through the roof.

More important—new capital investment should prevent any further substantial jump in operating rates. A recent McGraw-Hill survey suggests American plants will be adding 7% to their production potential this year.

And preliminary estimates point to another 4-4.5% advance for 1989. Superimpose those projected capacity additions on the moderate demand gains now being forecast—and the availability situation doesn't seem to be getting any worse. In fact, it could get better by early 1989.

Another reassuring note on the supply front: The three industries which have seen the biggest price runups over the past few quarters (metals, chemicals, and paper) are also the three contemplating the largest percentage gains in plant and equipment spending this year. Implication: Upward price pressures in these areas should soon begin to taper off.

Nor do rising import prices seem to present too much of a problem. True, tags on incoming goods have moved up strongly in recent quarters. But the worst may be over as the U.S. dollar shows signs of stabilizing after more than two years of steady decline.

Even the drought impact on food prices is likely to be marginal—at least as far as the current year is concerned. The Department of Agriculture has upped its 1988 food price inflation estimate by only one percentage point—from 2-4% at the beginning of the year to 3-5% currently. That's not nearly enough to send any shock waves through the economy.

There is continuing good news on the productivity front. Factory efficiency gains remain quite high—enough to offset pay increases which remain quite moderate. Last year the average factory worker turned out 3.3% more than he did in 1986. And while 1988 to-date figures are somewhat lower, new acceleration is possible as more modern equipment comes on line.

Inflation: concern but not worry

A bit concerned but not necessarily worried about inflation—that's what some purchasing executives of the nation's biggest corporations are telling Machinery and Allied Product Institute (MAPI) survey takers.

The big price headaches, say the survey's respondents, are in the metals area. On the other hand, other anticipated boosts are likely to remain well in the single digit range this year (see chart for details).

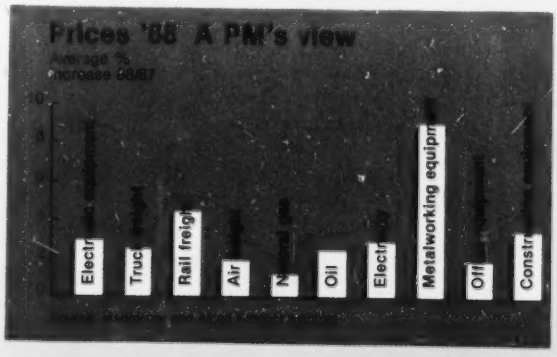
Projected leadtime stretchouts aren't that horrendous either. The average increases *vis a vis* 1987 (for the 12 product categories where data is pertinent) are generally put in the 2-4 week range.

And as far as shortages are concerned, only three product lines received frequent mention—ferrous and nonferrous metals (42% of the respondents), bearings (10%), and forgings (6%). The only other items noted by more than one company were memory devices, resins, fasteners, and corrugated board.

Going back to price—the concensus calls for a less than 5% boost this year (cost-of-living basis). This is because there is no evidence of stockpiling—nor of any inflation spreading beyond raw materials price pressures and capacity restraints.

MAPI adds that there are a number of reasons for this restraint—including 1) the greater use of long-term contracts, 2) a reduction in the number of suppliers and more effective supplier/customer partnerships, 3) offsetting cost savings and productivity increases, and 4) escalation clauses that don't "ever escalate".

The study further notes that global competition is not that far offstage—and to maintain market position many firms have had to live with lower-than-expected profit margins.



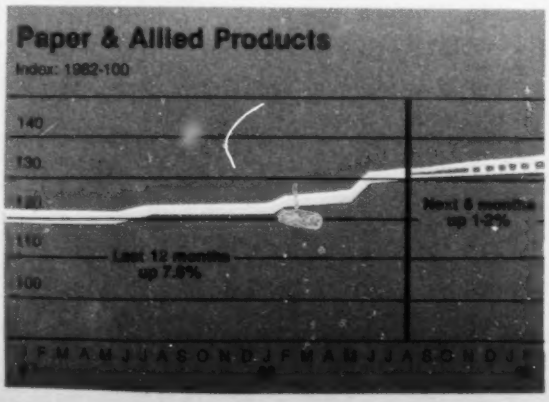
Paper still up on good demand

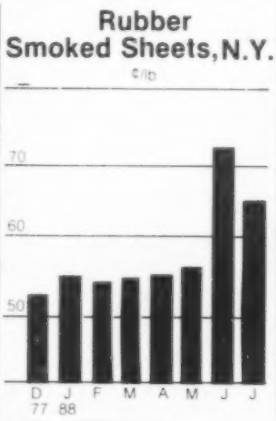
CURRENT SITUATION: Still no end in sight to the sellers' market as good demand and tight supplies keep operating rates near maximum levels. Prices (sparked by a new boost in market pulp) remain firm—and in some instances are still rising. Some typical advances in lists since the beginning of the year: Forms bond (12%), uncoated groundwood (8%), unbleached kraft linerboard (8%), and corrugated boxes (5%). The only signs of easiness are in newsprint where expectations of another boost are being pushed further ahead into the future.

DEMAND: Another record year is all but assured. Right now the industry looks to turn out a peak 75-76 million tons of paper and board in 1988. That's 1.5% above last year—and follows on the heels of 5% or bigger advances during each of the previous two years. some of the gains anticipated for individual product lines: Newsprint (2%), uncoated groundwood (6-6.5%), uncoated free sheet (no change), coated papers (3-4%), and unbleached kraft linerboard (2-3%).

SUPPLY: High operating rates attest to market snugness. True, a fair amount of new capacity has been announced, but it won't come on stream in time to affect 1988. Thus most grades will hold in the 90%-plus range—led by newsprint (100%), unbleached kraft linerboard (99%), and coated papers (93%). Uncoated groundwood and unbleached kraft paperboard—each at 86%—will be somewhat easier. **Longer run, things should ease up a bit—especially in newsprint** where North American capacity will rise 3% next year and 5.5% in 1990, **in uncoated free sheet** where 5% and 7% gains are projected, **and in linerboard** where gains will approach 4.5% and 3%, respectively.

PRICE OUTLOOK: More increases lie ahead—though they are likely to be smaller and more scattered than those posted over the past 12 months. One thing for sure, the big white paper increases of the past few quarters won't be repeated—as inventories begin to rise a bit. Some near-term advances are likely for both pulp and bleached board.


Paper & Allied Products
Index: 1982-100
140
130
120
110
100
Last 12 months up 7.8%
Next 6 months up 1.2%
J F M A M J J A S O N D J F M A M J J A S O N D J F
'87
'88



Rubber usage, prices up

Blame a hefty 20%-plus jump in natural rubber quotes over the past year (to 66-67¢/lb, an 8-year high) on a growing global shortfall. The International Rubber Study Group puts world consumption for 1988 at 4.94 million metric tons—140,000 metric tons under production. An 125,000 metric ton shortfall is tentatively being projected for 1989. Behind much of the new tightness: The AIDS crisis which caused a sharp jump in rubber-containing surgical gloves and condoms.

Action in ferroalloys

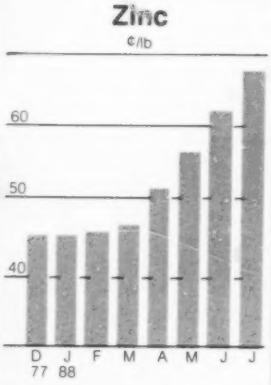
Plenty of price action here. On the upside are many manganese, chromium, and silicon items. Ditto vanadium, where South African pentoxide quotes have moved up about 10% (to $3.30/lb). Tungsten has turned easier—with spot ore down to $43-50/stu—off about $15/stu from recent spring levels. Nickel is also sliding—and could be down to $5/lb by year-end. This is also true of molybdenum, where dealer oxide quotes at latest report were under $3.50/lb—well below the $4.10/lb early 1988 peak.

Office equipment offers discounts

Demand may be booming—but substantial discounts are still available for those willing to shop around. Office typewriters, for example, can generally be purchased for 20-25% under list. Even bigger discounts are available on laser printers. Facsimile machine discounts run at around 20%. As for copiers—anywhere from 20-30% can be knocked off the manufacturer's suggested list—with some dealers offering a replacement for downtime when a machine is out of service for more than a day or two.

Air freight continues to rise

Outbound international rates (over both the Pacific and North Atlantic) could be up another 10% this fall—probably sometime early in the fourth quarter. These follow two increases on Atlantic routes and one on Pacific routes over the past year—with each boost coming to 10%. While the latest round of rate hikes hasn't been set in concrete yet, many big freight forwarders have already been notified. Behind the projected advance: Continued strong demand engendered by the soft dollar.



Zinc joins the runup

The plating metal has joined the nonferrous runup with a vengance. Prices in recent weeks have moved as high as 70¢/lb —a whopping 50%-plus advance over beginning-of-year levels. Reasons: Good demand and substantial producer order backlogs. But the increase may have been overdone —judging from the near global supply-demand balance being projected for the year. A correction can't be ruled out—with prices possibly dropping back to 60¢/lb or under by year-end.

Textile fibers up and down

The price picture is mixed. Cotton should be edging lower (with tags well under 60¢/lb expected)—on a combination of improving weather in growing areas and the implementation of a new government pricing program. On the other hand, wool tags remain close to current sky-high levels as the Australian Wool Corp. sets new support levels well above the 1987-88 price floor. And on the polyester front, recent large increases in ethylene glycol (a key raw material) suggest another round of increases in the synthetic fiber—possibly as early as the upcoming fourth quarter.

Copper falls toward fall

Quotes continue in the $1/lb-plus range—well under the $1.50/lb peak of earlier this year. One reason: An increase in availability—thanks to higher domestic production and a jump in imports from Chile, Australia, New Guinea, and Portugal. In addition, Noranda is planning to reactivate its Canadian Gaspe mine. All this suggests a slow buildup in inventories—with prices dropping back into the 90¢/lb range by this fall.

Sulfur demand rises

Brace for a modest price boost—fueled by a combination of booming phosphate exports and improving domestic consumption brought about by the drought. All in all, demand could be up by 10% over the next few quarters. Another price firmer: Falling inventories. Domestic stocks at latest report were down to 1.9 million tons—off 400 thousand tons from 1987. All this could boost off-list Tampa quotes which have been running in the $118-120/ton range—some $8-10/ton under posted levels. Best bet: A $3-5/ton boost in transaction tags by year-end.

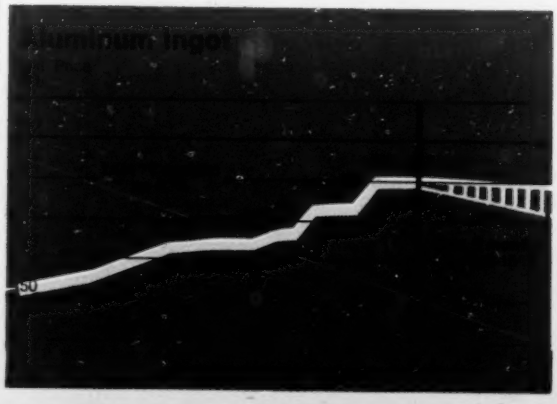
Aluminum demand, prices high

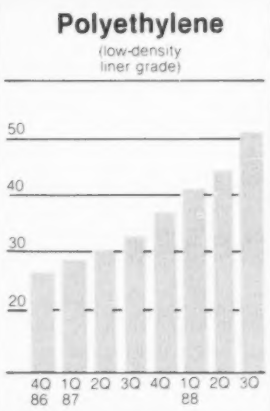
CURRENT SITUATION: Demand continues quite strong—with distributors at latest report putting year-to-date shipments better than 10% ahead of year-earlier levels. **Prices, meantime, remain at sky-high levels. Market ingot is now commanding $1.25/lb or more—up better than 50% from last summer's levels.** Flat-rolled products have also been rising steadily though not quite as spectacularly. In any case, a fourth round of hikes this year has just added another 7-19¢/lb onto many product lines.

DEMAND: While some second half leveling off seems almost certain, it should not be enough to prevent another record year. U.S. shipments for all of 1988 should rise 2-3%—reaching near 16.5 billion lb. **Especially strong performances are seen for beverage cans and aerospace fabricated products.** Global consumption is scheduled to rise, with totals hitting 14.2 million metric tons, *versus* 13.9 million in 1987 . The long-run prognosis is also bullish, as average annual domestic gains run in the 2% range.

SUPPLY: Low global stocks point up current snug markets. At last report, Free-world holdings were down to near 14.5 million tons—off more than 20% from year-earlier levels. Viewed from another perspective, global inventories represent only about a 30-35 day supply now—half that prevailing as recently as 1985-86. **On the other hand, a change seems to be in the making.** LMI holdings are beginning to rise as global capacity is gradually stepped up.

PRICE OUTLOOK: Figure on a mixed trend. The extremely volatile ingot should slide off from currently inflated highs—with quotes here edging toward the dollar mark toward year end. **Semi-fabricated products should be a lot more stable**—as it takes anywhere from 6-9 months before a drop in ingot is passed through to the value-added fabricated sector. Finally, better market balance over the long run suggests that the easing trend will continue through 1989.





Polyethylene prices up again

Prices prodded by a combination of rising feedstock costs and strong demand have moved up another 5¢/lb. Expect to pay anywhere from 51-53¢/lb for big volume purchases of both low-density and high-density (LDPE and HDPE) material. The upward market pull can best be appreciated by looking at this year's projected demand gains—4% and 7% for LDPE and HDPE, respectively. And this comes on top of the even bigger 9% and 16% gains of last year. Supplies have tightened significantly with this year's operating rates estimated to be in the 94% range for LDPE and 101% for HDPE.

Steel increases modest

Any near-term price increases are likely to be quite modest. Sign of the times: Automakers have negotiated new contracts with the mills that call for only 1-2% increases on sheet products over the 1989 model year. Other products will level off, too—with the average transaction price by late fall expected to run in the $515/ton range—less than $5/ton above April-June averages. This leveling off is partially due to better supply-demand balance. Most tightness is expected to disappear by year-end or early 1989 as shipments drop from 21 million tons in the second quarter to 18 million over the last three months of 1988.

Computers more cost-effective

New enhanced versions of IBM mainframes are expected to cost 8-10% more. But this will be offset by a 20-25% increase in computing power. Elsewhere, Hewlett-Packard and NCR have cut prices on personal computer lines by as much as 18%. Computer tags have not been decreasing as fast as they had previously. Reason: The recent jump in memory devices used in these machines.

Chlor-alkalis picture mixed

Caustic soda prices have been shooting up because of an extremely tight supply situation—with spot market buys on the East Coast said to be commanding as much as $500/short ton for barge lots. Also, caustic's co-product, chlorine, has been falling—with FOB prices as low as $50/short ton reported as a shortage of ethylene slows demand from ethylene dichloride producers.

U.S. competitive position improving

Price comparisons are making American-made goods more and more attractive.

The change in competitive position over the past few years borders on the spectacular. Since 1985, the ratio of U.S. wholesale prices to foreign wholesale prices (compiled by the Federal Reserve Bank of New York) has dropped by an eye-opening 50 points.

The actual differential between U.S. and imported goods quotes hasn't changed as drastically as this relative price comparison suggests—primarily because foreign sellers have opted to accept lower margins. Nevertheless, the shift is substantial—and helps explain our shrinking balance of trade deficit.

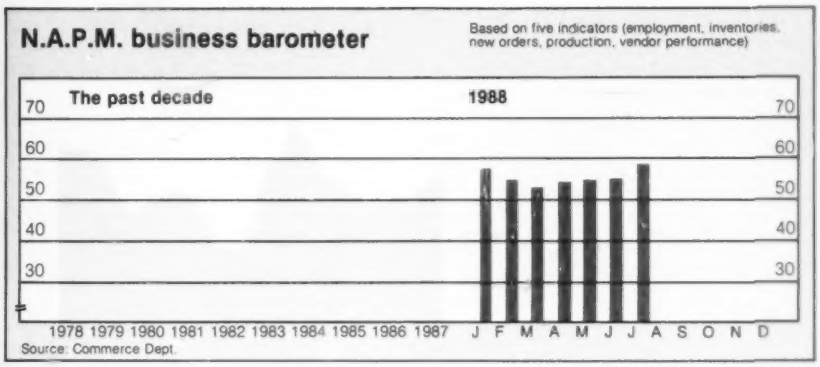
There are several reasons for this improving U.S. competitive position according to analysts at the New York Fed. First and foremost has been the big drop in the U.S. dollar *vis a vis* foreign currencies. But other factors have also been playing roles—notably 1) U.S. wage restraint, 2) strong gains in U.S. productivity, and, 3) improved domestic quality.

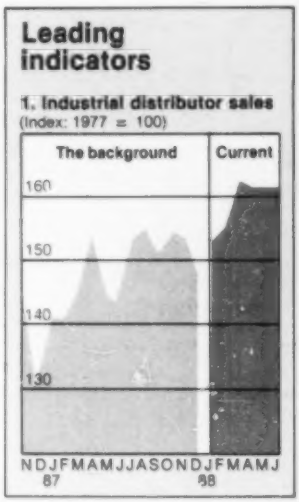
On the wage front, the domestic pay rate disadvantage has all but disappeared—$13.50/hour here *versus* $13.25/hour in foreign industrial countries viewed as a whole. Compare this to a 16% disadvantage in 1980 (when exchange rates were close to current levels)—and the role of wage restraint becomes clear.

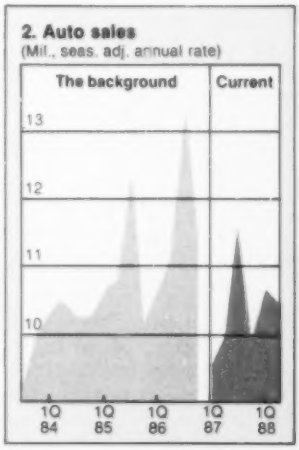
U.S. firms over the past four years have managed to beef up productivity significantly. Over this period, U.S. factory productivity gains have averaged out at over 4.5% a year—in sharp contrast to the 2% levels of the previous decade.

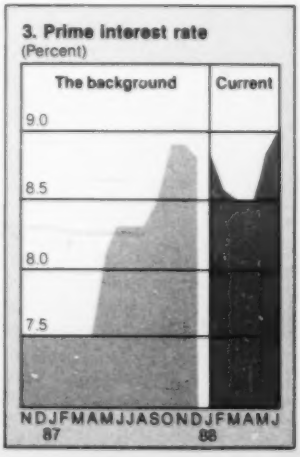
These gains are much the same as noted in the average overseas industrial country.

Our productivity advantage is still quite significant: Output produced in one hour of labor time in the U.S. requires almost one hour and 10 minutes in West Germany and Japan.


N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1988
70
60
50
40
30
1978 1979 1980 1981 1982 1983 1984 1985 1986 1987
J F M A M J J A S O N D
Source: Commerce Dept.







KEY ECONOMIC TRENDS

Signs call for continuing economic growth

The economic expansion—more than 5½ years old—shows no signs of flagging.

Latest signs of vigor include an unexpected low unemployment rate (5.3% annual rate), a still bearable level of inflation, and solid gains in new orders.

The impact of these barometers is summed up by two leading indicator indexes—one published by Uncle Sam and the other by the NAPM Business Survey Committee. Both are indicating continuing gains in fall and early winter.

The NAPM indicator (see chart) is truly impressive. The latest reading, 59.3, is up more than four points from the previous month. Past experience indicates that if current high readings continue, real GNP could top the 3½% mark.

Nor does the longer pull look all that bad. Rising exports are expected to increase industrial production for at least another year. Current expansion could persist into 1990 or beyond.

There are problems, but they seem manageable—and that goes for the effects of the Midwestern drought. Big problems in the Farm Belt no longer have significant impact on the economy.

A closer look at more specific near-term business barometers suggests that things are pretty much under control. Industrial distributor sales have been in a slowly rising trend for over a year now (see chart).

Consumers, while not quite on a spending binge, are doing their part to hold the economy up. Auto sales, at an annual rate of 10.5 million units (see chart), are better than was expected.

Add in truck sales, and it means that Americans bought all types of vehicles in the first half at a seasonally adjusted annual pace of 15.9 million units. Totals for the year could run 15.7 million units—not much under the 16.3 million all-time high hit in 1986.

Other reasons why consumer spending is likely to stay brisk: 1) incomes are growing; 2) rising net worth of households makes consumer debt look less burdensome; 3) consumer confidence remains high; and, 4) interest rates haven't risen enough to cut into borrowing.

Current prime interest rate levels (see chart) aren't any higher than they were last fall. Any increase should be measured in one-quarter and one-half percentage points—hardly enough to change the overall spending ground rules.

Last, but not least, there's the added cushion of plant and equipment investment. With profits and operating rates up, American industry has apparently raised its capital spending sights.

New machine tool orders in one recent month were at the highest level in seven years. Year-to-date figures for domestic orders are running close to 80% ahead of 1987.

Factor all of the above into the production equation, and industrial output seems a sure bet for further gains. ***PurchasingWorld***

magazine predictions for the remainder of 1988: An advance of near 4% at annual rate—enough to push the overall 1988 production totals 5% above the 1987 average.

More dollars being put into R&D

The nation's top corporate executives are stepping up their research and development (R&D) efforts.

A new DRI/McGraw-Hill survey points to a 6.5% increase this year (to $88.3 billion). And preliminary plans (usually subject to upward revision) call for another 10.8% increase over the subsequent two years.

These dollar figures should leave room for some real gains. R&D prices are targeted to rise about 3% this year—suggesting a 3.5% physical advance in the amount of work being done.

The new numbers are considerably better than the small, under-3% dollar gains reported in 1986 and 1987—figures which turn fractionally negative (-2%) after correcting for prices in both of these years.

Also on an upbeat note, R&D will come to about 3.2% of the sales dollar this year. While not much different from last year, it's better than the 2.1% figures noted during the 1977-1979 period.

As might be expected, the aerospace industry is the leader in dollar outlays ($17.8 billion this year)—with electrical equipment ($17.1 billion) a close second. Other big spenders: Machinery ($13.1 billion), chemicals ($10.9 billion), and automotive ($10.4 billion).

Most of these industries are also leaders in relative terms. Thus aerospace firms are allocating 16% of their sales dollars to R&D this year. Other big R&D/sales ratios are seen for instruments (8.7%), electrical equipment (7.1%), machinery (5.6%), and chemicals (4.7%).

While the above figures are below rates hoped for by analysts, it does indicate American industry is making some effort to regain its competitive edge. But the new report adds that a still more intensive R&D effort is needed—one that would put less emphasis on short-term profits and more on long-term growth.

No near-term slowdown

Discount talk of any near-term business slowdown. If the nation's top business executives are right, the current quarter may actually turn out to be better than the last one.

That's what 1,500 corporate executives have been telling Dun & Bradstreet survey takers these days. "Behind the continued optimism", says D & B corporate economist Joseph W. Duncan, "is a combination of a strong export demand and still-healthy levels of consumer spending."

Duncan does voice some concern that rising orders are beginning to put pressure on production capacity, which could drive prices up. As he puts it, "the burden is on the manufacturer to expand capacity in order to ward off inflationary pressures."

Bullish third quarter trends: a vendor perspective

(% of factory executives anticipating changes vis a vis a year ago)

Source: Dun & Bradstreet

This rise in prices is becoming apparent. Specifically, the net 3Q 48% price increase figure (50% anticipating rises over a year ago *versus* 2% seeing declines) is well above the 38% reading of just three months earlier.

One interesting finding: The net upward pressure is most noticeable in non-durables where a 34% reading three months ago has zoomed to 50% currently.

The figures for new orders also highlight the upbeat business climate. More than 70% of both durable and non-durable producers expect an increase in business this summer—outweighing the handful of respondents who look for some fall off.

This improving demand will require some inventory additions. In fact, the number of respondents anticipating a 3Q buildup (39%) is more than twice the 14% planning on declines.

Also on a bullish note, vendor profits are expected to continue improving. Part of this, of course, can be traced to increasing volume and higher prices. But other factors, says D & B's Duncan, are improving productivity and lower break-even levels.

CURRENT PRICES

Don't let food, farm prices fool you

Price averages are being distorted by rising food and farm product tags. Remove these from the overall producer price index and the increase over the past month comes to only 0.4%—in line with earlier 1988 trends.

Moreover zero in on finished products other than foods and the picture is even more encouraging. Latest readings here show only a 0.2% monthly increase—with the boost over the past 12 months put at only 2.4%.

That's not to say that there aren't a few problem areas. Capital equipment has advanced about 3.5%

so far this year, reflecting a substantial pickup in demand. Increases over the past 30 days here have hit pumps and compressors, railroad equipment, paper industry machinery, motor vehicles and civilian aircraft.

On the other hand, there were few offsetting declines in this sector. Lower quotes were posted for power-driven hand tools, precision measuring tools, scales and balances, and integrating and measuring devices.

Metals also continue to act up. Zinc moved up most this past month—but increases were also noted for steel mill products, nonferrous scrap, and some precious metals. Aluminum and copper seem to have finally leveled off.

Building materials are still another advancing area, rising 0.6% over the past month. New hikes here have hit softwood lumber, plywood, paint, nonferrous wire and cable, fabricated structural metal products and heating equipment. These more than offset declines in both gypsum and flat glass.

Prices of component parts also drifted higher. Sparking the advance here were electronic parts (led by higher asking prices for memory chips). Also moving higher were both aircraft engines and electric motors and generators.

A more mixed picture shows up in the energy sector. While increases were noted for electric power, residual fuel and liquid petroleum gas, they were pretty much offset by declines in gasoline, jet and diesel fuels and crude oil.

The latter is of special importance. Other things being equal, it suggests that downstream refined petroleum products should again be in a general declining trend by early fall.

THIS MONTH'S BREAKDOWN

Index: 1982 = 100

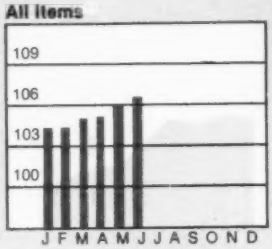
	Latest level (June)	% change from: Month ago	Year ago
Bearings	111.9	0.4	4.3
Bolts, nuts, etc.	106.8	0.2	3.6
Chemicals, inorganic	100.6	0.8	7.5
Chemicals, organic	107.1	2.1	8.6
Concrete products	110.2	0.3	0.8
Corrugated cartons	110.6	0.3	10.6
Cutting tools, small	107.0	0.0	0.7
Electric lamps (bulbs)	121.9	0.0	0.9
Electronic components	117.8	1.3	2.8
Fans and blowers	114.6	1.1	3.7
Foundry and forge products	109.6	0.5	4.2
Fuel oil (residual)	43.7	2.6	−20.7
Furniture, commercial	123.7	0.1	4.3
Gasoline	59.2	−0.7	−2.1
Glass, flat	109.1	−0.5	1.8
Glass containers	112.2	0.1	−1.0
Gypsum products	110.3	−0.9	−13.8
Hand tools	119.8	0.0	3.3
Hand tools, power driven	111.6	−0.6	2.6
Industrial furnaces	119.7	0.3	4.5
Integrating and measuring instruments	114.4	−1.5	0.6
Internal combustion engines	110.9	0.0	1.4
Lubricating oil	103.7	−0.5	5.4
Lumber millwork	122.3	0.6	3.6
Material handling equipment	107.4	0.1	3.2
Metal containers	110.0	0.1	0.3
Metal mill shapes (nonferrous)	128.7	1.6	25.1
Metal tanks	104.6	0.5	9.1
Motors and generators	107.3	−0.2	1.1
Motor trucks	124.0	0.2	4.0
Office and store equipment	107.1	0.5	2.2
Paperboard	134.0	0.7	15.6
Paper boxes and shipping containers	124.1	0.6	8.2
Paper office supplies	114.4	−0.2	6.0
Paint	112.2	1.0	3.9
Plastic resins	130.5	0.4	19.0
Precision measuring tools	121.5	−0.6	4.6
Pumps and compressors	108.6	0.7	3.4
Refractories	114.0	0.2	3.3
Rubber belts and belting	105.6	0.4	1.0
Scales and balances	105.9	−0.4	2.3
Steel products	111.0	0.5	9.9
Switchgear	113.6	0.6	2.6
Textiles, synthetic fibers	96.8	−0.2	6.4
Textiles, gray fabrics	114.6	0.4	7.4
Tires and tubes	94.1	0.2	4.1
Transformers and power regulators	107.3	−0.2	1.1
Welding equipment	118.1	1.2	6.7
Wire and cable	124.9	0.6	20.7

Industrial prices

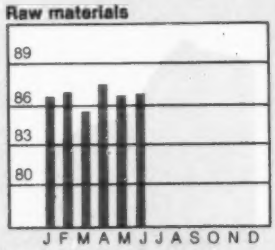
(Index: 1982 = 100)

1987 ● 1988

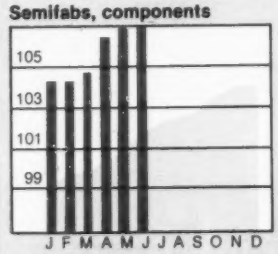
All items



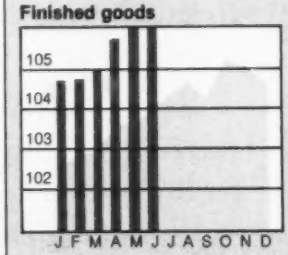
Raw materials



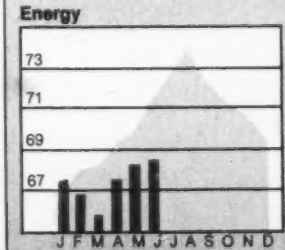
Semifabs, components



Finished goods



Energy



Source: Bureau of Labor Statistics

STEEL SCENE

Steel demand leveling

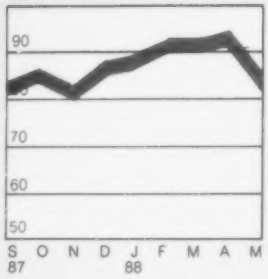
More and more signs are pointing to a leveling off in steel demand.

For one, inventories have been rising on both the distributor and buyer fronts. On a months' supply basis respondents to the latest Steel Service Center Institute (SSCI) survey indicate about a 3¼ month overall supply of steel—up a substantial one-half month from early 1988 levels.

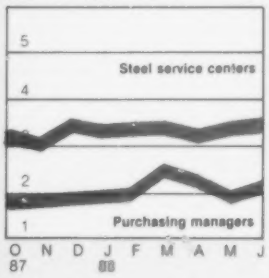
Taking off on this, SSCI President Andrew Sharkey observes, "We expect a reduction in service center purchases until invento-

Steel

Operating rates

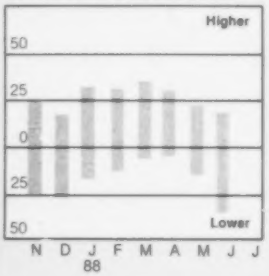


Inventories
(Months supply on hand)

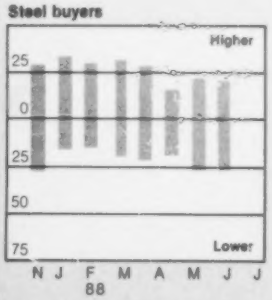


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyers



Import prices
(Compared to domestic)

Steel buyers

ABOVE	73%
SAME	32%
SLIGHTLY BELOW	12%
SUBSTANTIALLY BELOW	0%

Service centers (carbon)

ABOVE	11%
SAME	86%
5-10% BELOW	2%
10-20% BELOW	0%
OVER 20% BELOW	0%

Source: Steel Service Center Institute, NAPM Steel Buyers Committee

ries, now approaching seven million tons, are brought back into line." He also stresses that carbon plate inventories, which have reached a 5.2-month supply, represent the most significant cause for concern.

Buyers responding to the latest NAPM survey report a 2¼ month supply—up a week from levels reported one month earlier.

Given these buildups, it's no surprise that inventory cutting is getting more and more attention. Thus the 55% of purchasing managers planning to reduce stocks over the next six months drowns out the minuscule 3% which still plans on some near-term increase in inventories.

And steel service centers look to be of the same mind—judging from their latest evaluation of inventory levels. Specifically, 54% think their holdings are "too high"—in sharp contrast to the 2% rating them "too low."

Demand projections seem to reflect this more cautious stocking strategy. In any case, the outlook is not quite as rosy as it was a few months back.

Some 41% of queried buyers expect to reduce their purchases of steel over the next three months. That's more than twice as many as those anticipating a step up—and represents the largest negative figure in more than a year and a half.

And again this slowdown is being seconded by distributors. The actual numbers here: 44% anticipate a drop in incoming orders over the next three months—with only 12% hoping for continued gains.

If nothing else, it suggests that the 5% year-to-date shipping gains reported by service centers may shrink a bit before the year is out. Nevertheless, given the fast 1988 start, totals for the year as a whole should easily top 1987's estimated 23 million ton-plus shipment level.

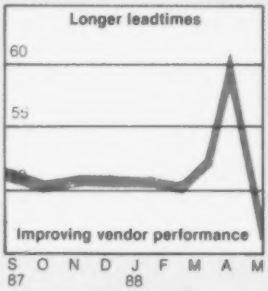
The changing demand patterns do not seem to be altering service center expectations of more price increases. Thus 59% of those surveyed still expect to pay more for their steel over the next six months.

The severity of increases, however, may be ready to slow down. At latest report only 5% expect increases in excess of 5%. That figure has been dropping steadily from the more than one out of four who expected such big hikes as recently as April.

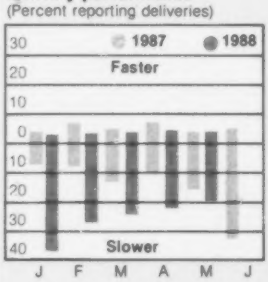
Another possible sign of a more competitive climate: Foreign mills have become marginally more active in seeking U.S. business. But they are still not offering any real price incentive—except in the case of stainless, where about one out of every five distributors reports price

Monthly procurement status report

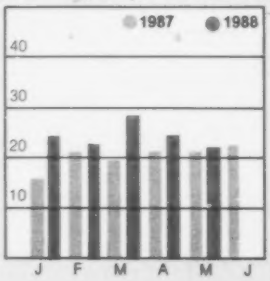
Leadtime index
A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



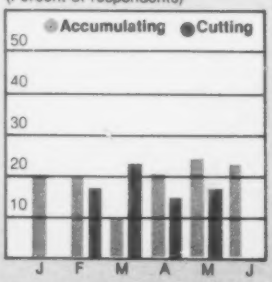
Delivery performance
(Percent reporting deliveries)



Forward commitments
(% committing 90 days or more in advance)



Inventory strategy
(Percent of respondents)



Source: NAPM

breaks in the 6-10% range.

Still another reassuring note is the fact that there has been some decline in fears of near-term supply shortages. This is especially true in cold-rolled sheet where things seem to be loosening up.

Overall shipment projections would also seem to support the likelihood of better market balance. Wharton Econometrics, for example, is forecasting shipments of only 19.2 million tons and 18.1 million tons for the third and fourth quarters, respectively. That's considerably under the 21 million tons that cleared the market in each of the last two quarters.

PROCUREMENT STATUS

Leadtime index drops below 50

Leadtimes actually managed to come in a bit over the past month—thanks to modest improvement in the steel and electric/electronic spheres (see table).

The drop in leads could prove to be temporary—more a function of the normal summer demand slowdown than any underlying shift in the overall procurement climate.

The majority of PMs surveyed this month feel that the current dip (*PW's* exclusive leadtime index dropped under the neutral 50 level for the first time in nearly a year) could be reversed by September or October.

Another sign that things really haven't loosened up all that much: The still-significant percentage of PMs (23%) who continue to commit for their production materials 90 days or more in advance.

Also indicative of an endemic availability problem: The long list of items on NAPM's short-supply list.

In the metals area, hard-to-get products now include aluminum (ninth consecutive month), nickel (four months), steel (15 out of the last 16 months), stainless (six months), steel sheet (14 months), and steel plate.

The chemical short-supply list is equally impressive: Caustic soda (13 months), styrene, polyethylene (two months), plastic resins (two months), ethylene oxide (four months), ethylene glycol, ethylene, ethylene derivatives, phenol (three months), methanol (seven months)

Electronic dynamic random access memories (DRAMs)—notably the 256K and 1-megabit types—are also listed for the fourth straight month.

LEADTIMES (in weeks)

	Month ago	Latest month
CHEMICALS-PLASTICS		
Adhesives	3	3
Naphthalene	2	2½
Paint	3	3
Paint, Coil Coating	3	3
Paint, Maint.	2	2½
Polyester Resin	2	1
Polyethylene Resin	4	4½
PVC Resin	5½	5½
Titanium Dioxide	1½	2
ELECTRICAL & ELECTRONIC		
Cables	8½	8½
Circuit Breakers	4	4
Electromech. Devices	7	7
ICs (Linear)	8½	9½
Motors, Fractional Horsepower	14	12
Motors 1-10 HP	13	11
Motors 10 HP & Up	12	11
Relays	8	8
Transformers	10	10
LUMBER		
Hardwood	2½	3
Plywood	3	3
Softwood	2	2½
Particleboard	3	3
OFFICE PRODUCTS		
Copiers	2	2
PCs Workstations	4	4½
Facsimilies	3	3
Pre-printed Form	4	4
Elex Typewriter	3	3
Furniture	4	5
Printers	3½	3½
Telecommunications	7	8

	Month ago	Latest month
PACKAGING		
Bags, Kraft	4	4½
Bags, Multiwall	6	6½
Cartons, Corrugated	2	2½
Cartons, Folding	2	2½
Cellophane Wrap	4	4
Plastic Bags	2	5
Plastic Pkg.	4	5
Shrink Film	3½	2
Drums, Fiber	2	2½
Drums, Steel, Std.	2½	2½
Wood Pallets	3	2½
Wirebound Boxes	4½	4
Strapping	2½	2½
PAPER		
Fiberboard	4	4½
Glassine	5	5
Groundwood	5	5
Kraft	2	2½
Kraft, Bleached	3	3½
Kraft, Natural MFNS	1	1½
Laminated	6	7
Tissue	5	5
NONFERROUS METALS		
Aluminum Coil	15½	15
Aluminum Plate	21	21
Aluminum Sheet	18	17
Brass Castings	8	8
Brass Rods	8½	8
Brass Sheet	8½	8½
Brass Tube	8	8½
Copper Fittings	2	3
Copper Mill Prod.	6	5½
Copper Tube	4	4½
Lead	4	4½
Magnesium	3	3
Manganese	8	8

	Month ago	Latest month
Nickel	3	3½
Silicon	1	1½
Tin	2	2½
Wire, Specialty	4	4½
Zinc	3½	3½
MISCELLANEOUS		
Bearings, Domestic	5½	6½
Bearings, Foreign	16	16
Fasteners	6	6
Fasteners, Std.	2	2½
Insulation Mat'l.	7	7
Machined Parts	5½	6
Pipes & Valves	4	4
Rubber, Synthetic	2	2
Rubber Hose	4	4
Tungsten Carbide Parts	14	14
Valves, Cast Steel	5	5
Welding Supplies	2½	2½
STEEL		
Cold-Drawn Bars	3½	4
Cold-Rolled Sheet	11½	11
Forgings	11	11½
Galvanized	3	3
Grey Iron Castings	9	9
Hot Rolled Bars	3½	3½
Pipe, Carbon	4	4½
Plate	11½	10½
Sheet	14	13½
Sheet Castings	7½	8½
Structurals	10½	9
Tubing	6	6½

Figures represent the average leadtimes from various locations.

Better control keeps inventories lean

Inventory restraint is the order of the day—as far as purchased materials stocks (the bailiwick of industrial purchasing managers) are concerned.

Stock/sales ratios in the key durable goods area are at their lowest level in years. And, purchasing executives responding to a new nationwide *PurchasingWorld* magazine survey indicate they mean to keep it that way.

The reasons behind this "keep'em lean" strategy are: 1) topside pressure; 2) high inventory carrying costs; and, 3) better inventory controls, with the assistance of just-in-time deliveries.

Not even the tightening of supplies in some sectors is making for any change in the overall inventory numbers. As one steel buyer puts it: "Sure, we know it takes a bit longer to get delivery these days. But, rather than ordering more we're ordering earlier—hoping our estimated delivery times are accurate."

Repeat this reasoning around the country and it spells a radical change from previous business cycles when stocks were gradually built up to the point where they provoked the traditional inventory correction.

And this could be one reason why most analysts remain optimistic about the next few quarters. Specifically, lean inventories assure continued economic gains as new orders are satisfied by new production rather than by the drawing down of existing stocks.

Buyers are also relatively pleased about the current situation. Thus about two out of every three surveyed PMs say their inventories are just about right. This is all in sharp contrast to similar surveys taken two and one years ago when 90% and 56% of the respondents, respectively, felt their holdings were "too high."

One reason could be that they have already made significant progress in paring stocks over the recent past. Close to half of the queried buyers say days' supply is lower now than at the beginning of the year.

True, some tonnage gains are anticipated by nearly two out of every three respondents over the next six months. But these people add that the increases will be modest and in line with expected sales gains. Implication: days' supply will stay where it is now.

However, a fair number of purchasing executives (35%) admit to some hedging to beat price hikes. This is not surprising. It makes a lot of sense given the number of items that have been moving up in price.

On the other hand, not one PM says he's adding to stocks because of strike fears. This represents a departure from earlier surveys where a substantial number of buyers factored possible work stoppages into their procurement strategies.

That's not to say that buyers don't have other problems. About 40% feel leadtimes could stretch out a bit more over the next few quarters, especially in the chemical, plastics and specialty steel areas. But, as noted, that is being taken care of by advance ordering rather than by any increase in inventory totals.

The resolve to keep stocks down is also emphasized by the fact that one out of four respondents say they have already implemented some sort of just-in-time policy. The majority who have not indicate they're working on one.

Other hold-the-line approaches include more computerization, increasing use of blanket orders and long- term contracts, improved sales forecasting, and closer vendor-buyer liaisons.

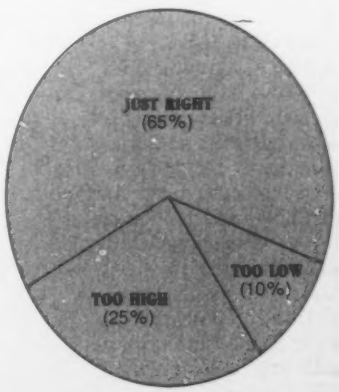
The latter is getting added impetus from the just-in-time approach which, by necessity, requires closer working relationships. But even where JIT is not a consideration, more and more PMs are becoming convinced better communications is the wave of the future.

As one Midwestern PM sums it up, "It's a symbiotic relationship—one which is increasingly important, indeed crucial if we're to stay alive in what is becoming a competitive one-world economy." ***PW***

Inventories: No sweat

Stocks are trim

Buyers are satisfied

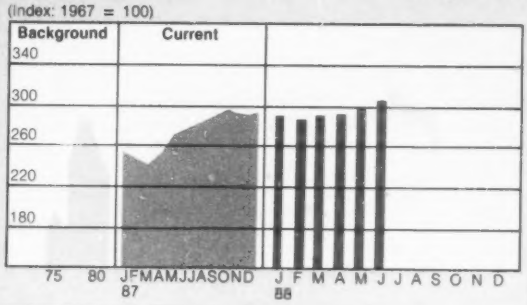


Source: Commerce Dept., PW survey

Raw material price barometer

Latest month 309.7
Month before 301.6
Year ago 276.4

(Index: 1967 = 100)



LATEST SPOT MARKET PRICES

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	16.50
Steel, bars, Pitts., cwt.	16.50	16.50	16.50
Steel, bars, C.R., Pitts., cwt.	19.55	19.45	19.45
Steel, plates, Pitts., cwt.	22.75	19.75	19.75
Steel, plates, H.R., Pitts., cwt.	22.75	19.75	19.75
Steel, sheets, C.R., Detroit, cwt.	28.15	28.15	26.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	1.22	1.260	.725
Antimony, N.Y., dealer, lb.	.95	.98	1.15
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.65
Brass, red, 85%, [sheet], lb.	1.71	1.80	1.41
Brass, yellow, [sheet], lb.	1.66	1.75	1.36
Cadmium, N.Y., dealer, lb.	8.00	8.00	1.50
Copper, electrolytic, wire bars, refd., lb.	1.07	1.16	.77
Copper sheet, over 24 in., lb.	1.79	1.88	1.50
Lead, common, N.Y., lb.	.36	.36	.40
Magnesium, pig ingot, [99.8%], lb.	1.58	1.58	1.53
Mercury, 20 fl. lots, N.Y., fl.	370.00	355.00	295.00
Molybdenum, oxide, dealer, lb.	3.39	3.50	2.58
Nickel, cathode, dealer, lb.	6.60	7.05	2.18
Platinum, dealer, oz.	543.00	574.00	559.00
Silver, N.Y., oz.	6.97	7.01	7.65
Tin, N.Y., dealer, lb.	3.32	3.31	3.09
Zinc, Prime West, East St. Louis, lb.	.66	.63	.46
Zinc, die casting alloy, No. 3, lb.	.735	.675	.525
PAPER			
Uncoated book #3 offset, ton	920.00	920.00	860.00
Watermarked bond, ton	1070.00	1070.00	985.00
Gummed sealing tape, carton	17.71	17.57	16.96
Grocery sacks, ton	455.00	455.00	390.00
Solid bleached paperboard, ton	685.00	685.00	620.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	350.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.276	.285	.243
Cotton drill, 1.85, 59", 66x49, N.Y., yd.	1.22	1.22	1.22
Cotton middling, 1", N.Y., lb.	.577	.644	.719
Printcloth, 48", 80x80, N.Y., spot, yd.	.490	.510	.660
Army duck, 37", 13 oz., yd.	1.510	1.510	1.495
Blended printcloth, 64", 78x54, yd.	.65	.64	.91
20s combed yarns	2.00	2.00	1.97
Wool 64s, Staple, lb.	4.50	4.50	2.70
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	100.00	100.00	105.00
Benzene, petroleum, tanks, Houston, gal.	1.08	1.05	1.35
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.735	.685	.910
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.55	.55	.30
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.350	.340	.295
Polyethylene resin, low density liner film grade (market place), lb.	.465	.465	.315
Polypropylene, homopolymer grade (market price), lb.	.515	.515	.400
Polystyrene, general purpose grade (market price), lb.	.600	.590	.530
Polyvinyl chloride, pipe grade (market price), lb.	.420	.420	.340
Soda ash, 58%, light carlots, cwt	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.450	.450	.425
Sulfur, crude, ex-terminal, Tampa, Fla., lt.	127.50	127.50	134.50
Sulfuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.870	.870	.770
Xylene tanks, gal.	.870	.870	.900
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	330.55	329.30	329.30
Lumber 2x2 pine, mbf, cl	321.85	326.15	324.65
Plywood, plyform, ⅜", msf, cl	578.60	578.70	580.75
Plywood, ⅝", msf, cl	412.45	413.45	384.15
Cement, bulk, ton, tl	66.39	65.02	64.35
Sand, ton, cl	7.43	7.32	7.21
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.01	49.10	49.08
Crushed stone, 1½", ton, cl	8.57	8.50	8.33
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.91	0.93	0.90
Gypsum sheathing, ½"x1"x8", msf, tl	228.43	228.43	238.77
Brick, common, per thousand, tl	218.88	204.91	198.26
Asphalt paving, AC-20	121.95	128.37	132.72
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.58	7.58	7.48
FUELS			
Crude oil (W. Tex Int Cush), bbl.	14.70	16.45	21.60
Diesel (reseller rack, Chi), gal.	.4275	.4625	N.A.
Fuel oil No. 2 (N.Y.), gal.	.4040	.4425	.5900
Fuel oil No. 2 (Gulf spot), gal.	.3900	.4150	N.A.
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	15.75	16.00	N.A.
Gasoline (reg lded NY), gal.	.6125	.5200	.5675
Gasoline (reg unlded NY), gal.	.5900	.4975	.5500
Kerosene (reseller rack, Chi), gal.	.4750	.5050	N.A.
Propane (Mt. Belviu, Tex), gal.	.1900	.2325	.2525
SCRAP MATERIALS			
Steel, No. 1, hvy. dlvd., Pitts., ton	102.00	104.00	83.00
Steel, No. 1 hvy., dlvd., Chi., ton	120.00	108.00	78.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.885	.970	.705
Copper, No. 2, East, wholesale buy, dlvd., lb.	.780	.880	.620
Brass, red, East, wholesale buy, dlvd., lb.	.845	.930	.665
Brass, yellow, East, wholesale buy, dlvd., lb.	.470	.425	.345
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.655	.680	.455
Alum., mixed clip, E., wholesale buy, dlvd., lb.	.730	.750	.510
Zinc, old, East, wholesale buy, dlvd., lb.	.240	.240	.200
Lead, clean solids, East, wholesale buy, dlvd., lb.	.220	.220	.275
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug box, dlr., Chi., ton	20.00	15.00	45.00
Paper, old corrug box, dlr., N.Y., ton	10.00	5.00	25.00
Old newspapers, Chi., ton	10.00	15.00	N.A.
Old white ledger, Chi., ton	85.00	75.00	N.A.

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]